

2023

Annual Report





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AGENDA

- 1. Call the Meeting to order and declaration of quorum**
- 2. Welcome from Board President and Minute of Silence**
- 3. Introduction of Guests**
- 4. Reading of the Minutes from 2023 Annual Meeting**
- 5. Business from the Minutes**
- 6. President's Report**
- 7. Manager's Report**
- 8. Presentation of Financial Statements by MRSB**
- 9. New Business**
- 10. Election of Officers**
- 11. Installation of Officers**
- 12. Adjournment**

Morell Credit Union Ltd

85th AGM Minutes

April 25, 2023

Mt Stewart Community Centre, Mount Stewart PEI

The 85th Annual Meeting of the Morell Credit Union Limited was called to order by Randy Byrne, President, at 6:01pm.

Samantha Jenkins gave the declaration of the quorum, with 26 members and 2 guests in attendance. Randy Byrne then called upon those present to observe a Minute of Silence in memory of those who had passed away since our last Annual Meeting.

Randy Byrne welcomed everyone to Morell and introduced our representative Michelle Burge from MRSB, and Rob MacBain CEO from CUDIC.

Randy Byrne asked if everyone would read over the minutes for errors and/or omissions.

Randy Byrne asked for a motion to accept the 2022 minutes as presented.

It was moved by Jennifer Handrahan, seconded by Sarah Dymont, to accept the minutes as presented.

MOTION CARRIED

No questions or new business arose from the minutes.

Randy Byrne requested that Secretary Lisa MacIntyre accept the Chair while he presented the President's Report.

It was moved by Randy Byrne, seconded by Anne Morrison, to accept the adoption of the President's Report.

MOTION CARRIED

Randy Byrne resumed the Chair and thanked Lisa.

Sherri Clark, General Manager, presented her report for the fiscal year ended December 31st, 2022.

It was moved by Sherri Clark, seconded by Samantha Jenkins, to accept the Manager's Report as presented.

MOTION CARRIED

Michelle Burge from MRSB Chartered Accountants presented the 2022 Audited Financial Statements and addressed questions from the floor.

Morell Credit Union Ltd

85th AGM Minutes

April 25, 2023

Mt Stewart Community Centre, Mount Stewart PEI

New Business

Randy reviewed the recommended amendment to the following by-law changes - section 5.01 and Section 5.12.

Randy reviewed the recommended changes:

Section 5.01 - proposed changes to 5.01 that the Board shall consist of between 7 and 9 Directors

Section 5.12 - proposed changes to 5.12 that the Board is seeking approval to make an amendment to Director Eligibility whereby a nominee for a director must not have been an employee in the Credit Union System in the previous 9-year period.

It was moved by Sarah Gaudet, seconded by Lisa MacIntyre, to move amended changes to Section 5.01 as presented by Randy Byrne.

It was moved by Karen Milligan, seconded by Keila Hebert to move amended changes to 5.12 as presented by Randy Byrne.

MOTION CARRIED

Sherri Clark presented Randy Byrne with a gift from the Board and Staff in appreciation of all his hard work and guidance over the past 9 years and on the Board for Morell Credit Union Limited.

Door Prize Winners: Lisa MacIntyre, Kevin MacEwen and Catherine 'Cookie' McDonald

Catherine 'Cookie' McDonald asked about the new banking system and what this means. Sherri explained that our current system is going to expire, and we will be merging into a new banking platform but lots of communication and information will be available for our Membership ahead of the merger.

Election of Directors

Randy Byrne, President, representing the Nominating Committee, noted that Sheryll O'Hanley will be appointed and sworn in at the next Board of Directors Meeting.

Randy Byrne, President, carried out the Installation of Officers ceremony and read section 40 of the Credit Union Act with the current board of directors.

Randy Byrne, President, introduced the 2023 Board of Directors to members and guests present.

Randy Byrne, President, asked for a motion to adjourn the meeting and Samantha Jenkins moved adjournment at 6:48pm.

*Connie Girard (Corporate Secretary)
Recorder*

2023 Financial Highlights



ASSETS
\$61 M

2.2% growth

LOANS
\$47 M

12.5% growth

DEPOSITS
\$59 M

9% growth

DELINQUENCY
0.17%

**Below Industry
Standard**

Our Mission & Our Values

Values



- Simplistic
- Holistic
- Inclusive
- Honest
- Passionate
- Spiritual
- Evolutionary

Mission

- The Mission of Morell Credit Union is to provide competitive Financial Services tailored to meet the needs of our owners and their communities.
- We pride ourselves in directing the organization we control and in the equality of services provided.
- Morell Credit Union is a community-minded Cooperative that helps build through its involvement, its leadership, and the retention of Financial Resources in the community.

Meet Our Executive Board of Directors



SHERYLL O'HANLEY
PRESIDENT



PETER MACADAM
VICE PRESIDENT



LISA MACINTYRE
SECRETARY

Meet Our Board of Directors



KEVIN MACEWEN



ALLAN COFFIN



SARAH DYMENT



KAREN MILLIGAN



SARAH GAUDET



KEILA HEBERT



Sheryll O'Hanley

President's Report



The “buzz” word for the past year has been **connection**. As I reflect on the past year for the Morell Credit Union, I certainly know that Connection has been a priority. Staff and Board have been making meaningful connections throughout the year through three main areas:

Community Connection: Morell Credit Union continues to be a strong supporter of our service area Communities. By sponsoring local festivals, events, food cupboards, breakfast programs, and sports teams, MCU stays in touch with the hardworking people who make our communities welcoming and successful. MCU is also supporting students through scholarships at Morell High School and mental health resources at Holland College.

Member Connection: In today’s world of technology, it is always nice to call the Morell Credit Union and get a real person on the other end of the phone. MCU is a strong believer in member connection and making sure each member feels supported and important. Staff are willing to work with members to ensure they have the best information to make financial decisions and the best financial products to meet their needs. I want to say thank you to all staff. From the moment you walk into the building, you are greeted with a smile and a hello.

Financial Connection: This past year saw our staff heading out into the Communities to bring financial awareness to a variety of groups. There were two focus groups this year: our high school students and our seniors. Giving the tools to our members to be aware of scams, the best way to secure a financial future, and how to navigate through the present inflation rates were just some of the topics covered. We look forward to providing more topics in the future.

Overall, I want to extend a thank you to all our members, Board of Directors, Staff, and Management team for making Morell Credit Union a thriving financial institution. I have enjoyed the past year as Chair of the Board of Directors. I have a strong sense of pride in what the Morell Credit Union has accomplished and look forward to seeing where we can continue to grow.

Sheryll O' Hanley



General Manager's Report

Sherri Clark



It is my pleasure to welcome everyone this evening to our 86th Annual General Meeting and report on another positive year for our Credit Union.

I am pleased to report that 2023 once again represents a terrific year for our Credit Union. Again, we have achieved growth in all areas of our business. I will provide a brief overview of our financial highlights and Michelle Burge from MRSB will cover the results in detail. Assets at year end amounted to just over \$61 million dollars or 2.2% growth. Loan growth increased by 12.5%, and our deposits increased by 9%. Our delinquency is below industry standards, while profits were at a record high level. Our equity position is strong at 8.12%.

These results are achieved with hard work and dedication. Your Board of Directors works tirelessly to ensure that governance and strategic objectives are met to move your Credit Union forward. Secondly, is the dedicated group of staff that work hard each day to ensure the financial objectives of the membership are met.

Corporate and Social Responsibility remain an important part of our business model. Over the last year, staff have invested over 175 volunteer hours in our communities, as we continued to support local initiatives, last year we gave back over \$38,000 to our local communities. The Board of Directors also approved a share dividend return to members in the amount of \$86,885.

As we look at 2024, we will continue to meet membership needs while focusing on continued growth and community support.

In closing, I wish to take this opportunity to thank our dedicated staff for their contributions in 2023. They are the reason behind our success. Also, thank you to the Board of Directors for their guidance and support over the last year.

Respectfully,

Sherri Clark

Meet Our Staff



Sherri Clark
General Manager



Lynn Hunter-Murphy
Director of People and
Member Experience



Samantha Jenkins
Senior Financial
Services Officer



Jennifer Handrahan
Manager of Audit &
Administration



Spencer Compton
Financial Services Officer



Connie Girard
Marketing Coordinator



Frances Gallant
Senior Member Service
Representative



Sue Weber
Member Service
Representative



Cody McInnis
Member Service
Representative

Cooperative & Social Responsibility



Our Focus is on YOU

At the Morell Credit Union, our members are our top priority. When it comes to banking and managing your money, we are focused on you and your financial well-being. That means you can always expect sound advice from our financial experts, with no obligations and no strings.

Credit Unions are firmly rooted in their communities. In fact, every credit union's board of directors consists of members from their community. That's why we understand what's important to our members and how we keep our decisions based on local realities. You see it in the products and services we develop and the way we give back to our communities. It's a human approach, and another reason how we're different.

In 2023, through CSR donations and loyal to local campaigns, we were able to fund several initiatives within the community:

- Morell Regional High School
- Eastern Chamber of Commerce
- Local Baseball Teams
- Morell River Run Festival
- Local Community Centre's
- Christmas School Donations
- Holland College
- St. Peter's Bay Community Cupboard
- Mount Stewart Lions Club



Thrive Campaign

“Credit Union branches across Prince Edward Island have pledged a \$250,000 leadership gift to Holland College Foundation for Thrive; a \$2.5 Million fundraising effort to establish a centre for student wellness, resilience and success.”

B4

LIFE • Tuesday, November 14, 2023

THE GUARDIAN

SUPPORT

Thrive receives \$250,000 gift

Credit union branches across Prince Edward Island have pledged a \$250,000 leadership gift to the Holland College Foundation for Thrive, a \$2.5-million fundraising effort to establish a centre for student wellness, resilience and success.

“Credit unions across Prince Edward Island have been long-term supporters of Holland College, and we’re thrilled to be able to continue our support of the organization with the implementation of this new building,” said Sarah Millar, CEO of Consolidated Credit Union and chair of Credit Unions of Prince Edward Island Management Group.

“We know that an individual’s greatest wealth is their health, and there is nothing more important than one’s own mental health. Through this partnership, we will be able to support students across P.E.I. during a challenging time in their life – which is truly the essence of what we, as credit unions, do.”

Sandy MacDonald, Holland College president, said the \$250,000 gift is in addition to the credit unions’ long-standing support of students.

Their support over the years includes a significant investment in the Learning For Life Capital Campaign, which



Paul MacNeill, left, CEO, Souris Credit Union, joins Sherri Clark, manager, Morell Credit Union, Sarah Millar, CEO, Consolidated Credit Union, and Alfred Arsenault, CEO, Provincial Credit Union, in the Credit Union Cafe at Holland College’s Prince of Wales Campus in Charlottetown. Credit Unions of Prince Edward Island recently made a \$250,000 leadership gift to the Holland College Foundation’s Thrive Campaign for student wellness, resilience and success.

CONTRIBUTED

supported several campus development and renovation projects and the establishment of numerous student awards. They are also an active partner and contributor to the col-

lege’s on-campus food banks.”

Kent Scales, Holland College Foundation board chair, says the college wants its students to finish strong, make successful transitions into the

workforce and lead happy and productive lives.”

“This generous gift from Credit Unions of Prince Edward Island will help us to provide students with every

DID YOU KNOW?

- To house the centre, Holland College is renovating and expanding a 4,300-square-foot building at its Prince of Wales Campus and doubling its size.
- Satellite offerings and services will be available to students provincially.
- Renovations and construction of the building began in April of 2023, and the centre is scheduled to be operational in September of 2024.
- A broad, integrated suite of services will be offered through the centre. These include mental health supports, a health clinic, academic support services, and career and academic counselling. Lifelong determinants of health such as sleep, diet, exercise, and social interaction will also be emphasized.
- A slate of entrance awards will be established for students who have diagnosed learning disabilities or mental health issues.
- To learn more about the Thrive campaign and how to contribute, visit holland-college.com/foundation.

opportunity to thrive, not just while they are with us as students, but throughout their lives.”

Thrive Campaign

LAUNCH OF \$2.5 MILLION THRIVE CAMPAIGN

Holland College is committed to ensuring students thrive academically while building the capacity and skills they need to lead healthy, empowered, and productive lives. In October, Holland College and the Holland College Foundation celebrated the public launch of Thrive, a campaign to support the establishment of a visible and accessible centre for student wellness, resilience, and success.

A renovation and expansion is underway on a 4,300 sq.ft. building at the Prince of Wales Campus in Charlottetown. Renovations and construction began in April of 2023, and the centre, which will double the size of the building, will be open and operational for students in September of 2024.

A broad, integrated suite of services will be offered through the centre. These include mental health supports, a health clinic, academic support services, and career and academic counselling. Lifelong determinants of health such as sleep, diet, exercise, and social interaction will also be incorporated.

Through technology and satellite offerings, all students across the province will have access to all resources, regardless of the campus they are attending. A slate of entrance awards will be established for students who have diagnosed learning disabilities and/or mental health issues.

The expected impact of this critical initiative is a reduction in student attrition and a bolstering of resiliency and coping skills that will benefit students throughout their lives. Ultimately our goal is to ensure that our students finish strong, make a successful transition into the workforce, and contribute to the overall health and prosperity of our communities.

thrive

A campaign for student wellness, resilience, and success.

"The needs of our students are growing and changing, which has challenged us and presented us with an opportunity to innovate and shift the way we deliver supports."

- Dr. Alexander (Sandy) MacDonald,
President, Holland College

To learn more about the Thrive campaign, and how you can contribute, visit hollandcollege.com/foundation.



PRINCE EDWARD ISLAND

Not only are **CREDIT UNIONS OF PRINCE EDWARD ISLAND** serving Islanders provincewide, they are also deeply committed to supporting initiatives that enrich Island communities. Collectively, credit union branches across P.E.I. have pledged a \$250,000 leadership gift to the Thrive campaign.

"We know that an individual's greatest wealth is their health, and there is nothing more important than one's own mental health. Through this partnership, we will be able to support students across P.E.I. during a challenging time in their life - which is truly the essence of what we, as credit unions, do."

- Sarah Millar, CEO, Consolidated Credit Union, and Chair, Credit Unions of Prince Edward Island Management Group



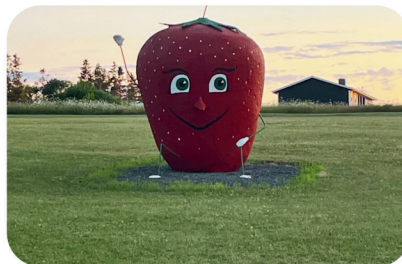
(L-R) Paul MacNeill, CEO, Souris Credit Union; Sherri Clark, CEO, Morell Credit Union; Sarah Millar, CEO, Consolidated Credit Union; and Alfred Arsenault, CEO, Provincial Credit Union in the Credit Union Café at Holland College's Prince of Wales Campus in Charlottetown.

Loyal2Local Campaign

Every year for the Loyal2Local campaign, our staff and board members are given \$50 to spend at their favourite local business to help support Local! This is a great way to bring awareness to our small local businesses.

In 2023 we supported 20 Local Businesses:

- Freckles and Porcelain
- Fryer's Hut
- Morell Consumers Co-op
- Bishop's Rest Ltd.
- In The Mix Bakery
- UNDER THE HAMMER Carpentry Services
- Rick's Fish 'N' Chips & Seafood House
- Julio's Seafood Market
- Holy Cow Burgers & Wings
- Rachel's Beauty Salon
- Black & White - Cafe and Bistro
- Moonlight Bay Craft Shop
- Coffin's Berry Farm
- MacBeth's Sweet Corn and Farm Stand
- Moo Town Dairy Bar
- House of Hair
- Nature Space Resort & Retreat Centre
- Rodd Crowbush Golf & Beach Resort
- GD Takeout
- Morell Automotive



Loyal2Local Campaign



Loyal2Local Campaign



Each one Teach one

We are dedicated to providing sound financial advice. Part of this involves going out into the community to provide educational teachings on Financial Services. This includes RRSPs, TFSAs, Basic Budgeting, Credit Scores and the most popular; **Cyber Crime**.

We hosted a very popular event at the Morell Fire Hall for our local seniors on the importance of staying diligent amongst all the potential Cyber Crime attacks happening. We had over 40 participants join our Lunch n' Learn!



CSR Highlights

Our staff love getting involved in the community. From the Loyal2Local campaign to our CSR events; like the Santa's Angels Toy Drive, our Annual 12 Days of Christmas, Setting Day at the Harbours, Member Appreciation BBQ and International Credit Union Day events that we host in-branch and in the community.



Our Community



Hike the Hill

In November 2023, our General Manager Sherri Clark had the opportunity to once again represent our Credit Union at the Government Relations forum and Hike the Hill in Ottawa. Every year in the fall, CCUA organizes this forum to bring together credit union sector employees and government officials from across the country.

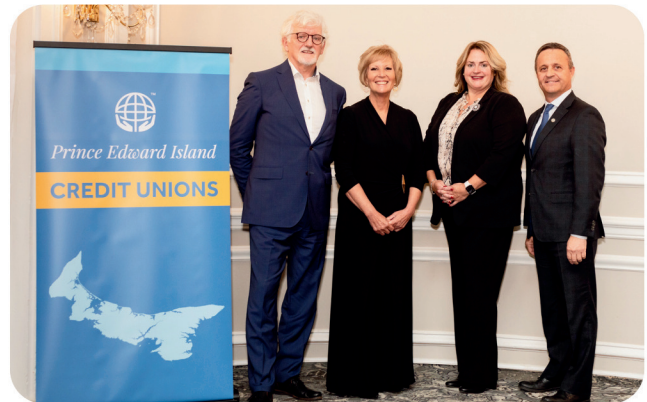
The forum allows legislators to become informed about the sector, their role in communities and the challenges faced in delivering products and services to their members.

Since 2009, Hike the Hill has been a very successful advocacy and engagement event. It is now a staple for credit unions and one which garners much attention from the sector. We look forward to continuing to support this event in collaboration with credit unions.



PEI MLA Reception

On November 14th we had the privilege of hosting a fantastic reception with local MLAs, community partners, and credit union leaders. An evening filled with celebration of our achievements and a glance at the amazing plans we have ahead. A huge thank you to everyone who joined us for this special occasion!



2023 Financial Statements

M | R | S | B
Accounting Tax Consulting Valuation Bookkeeping

139 Queen Street
PO Box 2679
Charlottetown, PE
C1A 8C3
902-368-2643

500 Granville Street
Suite 2B
Summerside, PE
C1N 5Y1
902- 888-3897

INDEPENDENT AUDITOR'S REPORT

To the Members of Morell Credit Union Limited

Opinion

We have audited the financial statements of Morell Credit Union Limited (the Credit Union), which comprise the statement of financial position as at December 31, 2023, and the statements of profit or loss and cash flows for the year then ended, and notes and schedules to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at December 31, 2023, and the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Credit Union's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Credit Union's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

(continues)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

MRSB Chartered Professional Accountants Inc.

MRSB CHARTERED PROFESSIONAL ACCOUNTANTS INC.

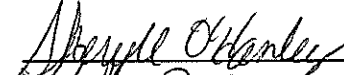
Charlottetown, PE

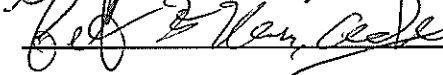
February 20, 2024

MORELL CREDIT UNION LIMITED
Statement of Financial Position
December 31, 2023

	2023	2022
ASSETS		
Cash and cash equivalents (Note 6)	\$ 3,111,932	\$ 7,733,905
Investments (Note 7)	9,862,915	9,479,693
Accounts receivable (Note 8)	402,409	335,813
Income taxes recoverable	46,962	-
Member loans and mortgages (Note 9)	47,140,513	41,878,258
Provision for impaired loans (Note 10)	(384,416)	(339,637)
Prepaid expense	567,133	264,079
Property and equipment (Schedule 1)	632,996	660,952
	\$ 61,380,444	\$ 60,013,063
LIABILITIES		
Accounts payable and accrued liabilities	\$ 304,960	\$ 227,447
Employee benefits payable	62,923	50,847
Accrued interest payable	679,788	271,823
Income taxes payable	-	52,792
Deferred income taxes (Note 12)	272	965
Member deposits (Note 13)	48,519,239	44,483,486
Share deposits	6,831,261	10,287,121
	56,398,443	55,374,481
MEMBERS' EQUITY		
Share capital (Statement 4)	10,205	10,295
Undistributed earnings (Statement 4)	4,971,796	4,628,287
	4,982,001	4,638,582
	\$ 61,380,444	\$ 60,013,063

On behalf of the Board


 _____ Director


 _____ Director

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Statement of Changes in Members' Equity
Year Ended December 31, 2023

	2023	2022
Members' shares (Note 14)		
Balance - beginning of year	\$ 10,295	\$ 10,290
Issuance of members' shares, net of redemption	<u>(90)</u>	<u>5</u>
Balance - end of year	<u>10,205</u>	<u>10,295</u>
Undistributed earnings		
Balance - beginning of year	4,628,287	4,300,481
Net income (Statement 5)	<u>343,509</u>	<u>327,806</u>
Balance - end of year	<u>4,971,796</u>	<u>4,628,287</u>
Members' equity	<u>\$ 4,982,001</u>	<u>\$ 4,638,582</u>

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED

Statement of Profit or Loss

Year Ended December 31, 2023

	2023	2022
Income		
Interest and investment	\$ 2,840,735	\$ 1,991,064
Cost of capital and borrowing		
Interest and service charges	1,003,651	314,986
Share dividends	86,885	68,915
	<u>1,090,536</u>	<u>383,901</u>
Financial margin	<u>1,750,199</u>	1,607,163
Other		
Commissions	323,807	295,223
Miscellaneous	64,449	40,667
	<u>388,256</u>	<u>335,890</u>
	<u>2,138,455</u>	<u>1,943,053</u>
Expenses - by nature		
Advertising and promotions	38,210	40,682
Amortization of property and equipment	43,484	38,084
Automated teller machines	12,391	11,326
Data processing	196,762	164,976
Director	19,100	11,818
Dues and memberships	1,859	319
Insurance	91,060	74,551
Office	53,227	59,229
Premises	60,837	55,369
Professional fees	30,360	34,737
Provision for impaired loans	45,834	78,566
Service fees	291,590	238,668
Telephone	13,678	13,707
Travel	14,069	5,862
Wages and wage levies	843,459	703,916
	<u>1,755,920</u>	<u>1,531,810</u>
Income before income taxes	<u>382,535</u>	411,243
Income taxes		
Current (Note 15)	39,719	86,663
Deferred	(693)	(3,226)
	<u>39,026</u>	<u>83,437</u>
Net income	<u>\$ 343,509</u>	<u>\$ 327,806</u>

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED

Statement of Cash Flows

Year Ended December 31, 2023

	2023	2022
Cash flows from operating activities		
Net income	\$ 343,509	\$ 327,806
Items not affecting cash:		
Amortization of property and equipment	43,484	38,084
Deferred income taxes	(693)	(3,226)
	<u>386,300</u>	<u>362,664</u>
Changes in non-cash working capital:		
Investments	(383,222)	(1,263,955)
Accounts receivable	(66,596)	75,745
Prepaid expense	(303,054)	(227,855)
Accounts payable and accrued liabilities	77,515	134,188
Employee benefits payable	12,076	15,552
Accrued interest payable	407,963	125,842
Income taxes payable	(99,754)	64,363
	<u>(355,072)</u>	<u>(1,076,120)</u>
	<u>31,228</u>	<u>(713,456)</u>
Cash flows from investing activities		
Increase in member loans and mortgages, net of provision	(5,217,475)	(7,453,727)
Purchase of property and equipment	(15,529)	(36,613)
	<u>(5,233,004)</u>	<u>(7,490,340)</u>
Cash flows from financing activities		
Increase in member deposits	4,035,753	4,854,265
Increase (decrease) in share deposits	(3,455,950)	1,003,103
	<u>579,803</u>	<u>5,857,368</u>
Decrease in cash and cash equivalents	(4,621,973)	(2,346,428)
Cash and cash equivalents - beginning of year	7,733,905	10,080,333
Cash and cash equivalents - end of year	\$ 3,111,932	\$ 7,733,905
Cash flows supplementary information (Note 16)		

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

1. REPORTING ENTITY

Morell Credit Union Limited was incorporated provincially under the Companies Act of Prince Edward Island on January 27, 1938 and is governed by the Prince Edward Island Credit Unions Act. Morell Credit Union Limited is a member-owned financial institution whose principal business activities include financial and banking services for its members at its branch in Morell, Prince Edward Island. The Credit Union's head office is located at 29 Park Street, Morell, PE.

2. BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with, and are in compliance with, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of the financial statements are set out in Note 4.

These financial statements were authorized for issue by the Board of Directors on February 20, 2024. The members of the Morell Credit Union have the power to amend the financial statements after issuance.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis except for available-for-sale investments which are measured at fair value through profit or loss.

These financial statements are presented in Canadian dollars, which is the Credit Union's functional currency.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand, cash in financial institutions and term deposit investments that have a maturity of less than three months. Cash and cash equivalents are carried at amortized cost.

Investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Credit Union has the positive intent and ability to hold to maturity, and which are not designated as fair value through profit or loss (FVTPL) or as available-for-sale. Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted investments whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Accounts receivable

Accounts receivable arise from miscellaneous rebates and accrued interest on loans and mortgages and investments. An allowance for bad debts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the year of recovery.

Loans and mortgages

Member loans and mortgages are initially measured at fair value, net of origination fees and inclusive of transaction costs incurred. Member loans and mortgages are subsequently measured at amortized cost, using the effective interest method, less any impairment losses.

Impairment

The Credit Union applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 for the financial assets measured at amortized cost.

The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of the credit deterioration since origination:

- Stage 1 - where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 - when a financial instrument experiences a credit risk subsequent to origination but it is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 - financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical inputs are as follows:

- PD - the probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

- EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD - the loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral and the impact of forward-looking macroeconomic factors. Common assessments for credit risk include management judgment, delinquency, and monitoring.

When measuring expected credit loss, the Credit Union considers the maximum contractual period over which the Credit Union is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment and extension and rollover options.

The Credit Union considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- Significant financial difficulty of the borrower;
- Default or delinquency in interest or principal payments;
- High probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- Measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Credit Union considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due.

The Credit Union writes off an impaired financial asset, either partially or fully, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Impairment of financial assets

The Credit Union assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are recorded, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred income taxes

Income tax expense comprises current and deferred tax.

Current income taxes are recognized for the estimated income taxes payable or recoverable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date.

Deferred tax assets and liabilities are recognized when the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available which allow the deferred tax asset to be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year end date and are expected to apply when the liabilities/assets are settled/recovered

Property and equipment

Property and equipment is stated at cost less accumulated amortization and is amortized over its estimated useful life on a declining balance basis at the following rates:

Building	4%
Equipment	20%
Pavement	8%
Computer hardware	30%, 45% and 55%

One-half of the annual rate is recorded in the year of acquisition; no amortization is recorded in the year of disposal.

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MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee future benefits

The Credit Union records annually the estimated liabilities for pension and other benefit obligations, which are payable to its employees in subsequent years under the Credit Union's policy.

The Credit Union provides post employment benefits through a defined contribution plan. Pension expenses for the defined contribution pension plan include the required employer contributions. Contributions to the plan are recognized as an expense in the year that the relevant employee services are rendered. During the year, the contributions by the Credit Union to the defined contribution pension plan were \$33,657 (2022 - \$30,978).

Liabilities are recorded for employee benefits including salaries and wages, deductions at source and bonuses that are expected to be settled within twelve months of the financial statement date. These represent present obligations resulting from employees' services provided to the financial statement date and are calculated at the undiscounted amounts based on remuneration rate that the Credit Union expects to pay at the financial statement date.

Benefits such as medical care are non-vesting and are expensed by the Credit Union as the benefits are taken by the employees.

Member deposits

Borrowings and deposits and membership shares that are classified as liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. Term, RRSP, RRIF and demand deposits can be fixed or variable rate. Interest can be paid annually, semi-annually, monthly or upon maturity.

Share deposits pay a dividend return at the discretion of the Board of Directors. Privileges of the shares are under the authority of the Board of Directors. The dividend rate declared and paid for 2023 was 1.25% (2022 - 0.75%) and was based on the average of the lowest monthly share balances.

Share deposits

The Credit Union has authorized an unlimited number of voting equity shares, with a value of \$5 per share. The shares are non-transferable, redeemable by the Credit Union, retractable by members subject to the Credit Union's right to suspend redemption, if the redemption would impair the financial stability of the Credit Union, for a period of up to twelve months by Board resolution and indefinitely by Board resolution with the approval of the Credit Union Deposit Insurance Corporation.

(continues)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit impaired assets, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Income and expense recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Credit Union and the income can readily be measured. The principal sources of income are interest and fee income. Interest on loans and mortgages is recognized and reported on an accrual basis using the effective interest method.

Other fee and commission income – including account servicing fees, loan discharge and administration fees, and syndication fees – is recognized as the related services are performed.

Operating expenses are recognized upon the utilization of the services or at the date of their origin. Expenses incurred directly in the origination of loans and mortgages are deferred and recognized in profit or loss as a reduction to income over the expected life of the relevant loans and mortgages. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Government assistance

Government assistance for current expenses is recorded against the expense. During the year, the Credit Union received \$13,090 (2022 - \$Nil) from Skills PEI for wage subsidies included in wages expense.

Government grants are recorded when there is a reasonable assurance that the Credit Union had complied with and will continue to comply with, all the necessary conditions to obtain the grants.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets and financial liabilities

The Credit Union initially recognizes loans and advances, deposits and liabilities on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: the asset is held within a business model whose objective is to hold assets to collect contractual cash flow; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets are classified as measured at FVTPL. Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Credit Union changes its business model for managing financial assets. There were no changes to any of the Credit Union business models during the current or prior year.

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. The Credit Union derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Credit Union derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. In transactions in which the Credit Union neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Credit Union continues to recognize the asset to the extent of its continuing involvement determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Credit Union has classified its financial assets and liabilities as follows:

Cash and cash equivalents - amortized cost

Available-for-sale investments - fair value through profit or loss

Held-to-maturity investments - amortized cost

Accounts receivable, member loans and mortgages, member and share deposits, accounts payable and accrued liabilities - amortized cost

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Income and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of profit or loss.

Changes in accounting standards

Future accounting developments

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2023 and have not been adopted by the Credit Union in preparing these financial statements. These changes are not expected to have a material impact on the Credit Union's financial statements.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Credit Union makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the period the assumptions change. The principal areas involving a higher degree of judgment or complexity and/or areas which require significant estimates are described below:

(a) Allowance for credit losses

The expected credit loss model requires the recognition of credit losses based on up to 12 months of expected losses for performing loans and the recognition of lifetime losses on performing loans that have experienced a significant credit risk since origination.

The determination of a significant increase in credit risk takes into account many different factors since origination, and certain other criteria, such as delinquencies. In assessing whether there has been a significant increase in credit risk, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. Future assessments of credit risk may be materially different from current circumstances which would result in a significant increase or decrease in the allowance for credit losses.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Estimated useful lives of property and equipment

Management estimates the useful lives of property and equipment based on the period during which assets are expected to be available for use. The amounts and timing of recorded depreciation expense of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear and legal and other limits to use. It is possible that changes in these factors may cause changes in the estimated useful lives of the Credit Union's property and equipment in the future.

(c) Income taxes

The actual amounts of income tax expense only become final upon filing and acceptance of the tax return by relevant authorities which occur subsequent to the issuance of the financial statements. Estimation of income taxes include evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions, before they expire, against future taxable income. To the extent estimates differ from the final tax provision, earnings would be affected in a subsequent period.

6. CASH AND CASH EQUIVALENTS

	<u>2023</u>	<u>2022</u>
Cash in financial institutions	\$ 1,686,759	\$ 2,385,598
Term deposit investments	1,000,000	5,000,000
Cash on hand	<u>425,173</u>	<u>348,307</u>
	<u>\$ 3,111,932</u>	<u>\$ 7,733,905</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

7. INVESTMENTS

	<u>2023</u>	<u>2022</u>
Shares		
Atlantic Central Credit Union Limited - common shares	\$ 559,690	\$ 528,410
Concentra Financial Services Association - 20,000 Class A preferred shares	500,000	500,000
Atlantic Central Credit Union Limited - Class LSM preferred shares	169,069	169,068
Atlantic Central Credit Union Limited - Class B preferred shares	91,500	91,500
League Data Limited - 1,511 Class B preferred shares	15,510	15,510
Morell Consumers Co-operative Association, Ltd.	2,038	1,902
Atlantic Central Credit Union Limited - Class PEI shares	800	800
	<u>1,338,607</u>	<u>1,307,190</u>
Debentures		
Atlantic Central Credit Union Limited liquidity deposit	3,747,126	3,797,003
Concentra term deposits	2,750,000	1,000,000
Atlantic Central Credit Union Limited term deposits	1,027,182	2,263,500
League Savings and Mortgage term deposits	1,000,000	1,112,000
	<u>8,524,308</u>	<u>8,172,503</u>
	<u>\$ 9,862,915</u>	<u>\$ 9,479,693</u>

The Credit Union shall maintain sufficient liquid assets to meet its obligations as they come due. As prescribed in the Credit Union Regulations, Section 2, the Credit Union shall maintain liquid assets of not less than 10% of the total amount of member deposits in and borrowings of the Credit Union as follows: 9% shall be invested in eligible financial instruments of Atlantic Central; 6% of assets, or other such amount as may be determined by Central from time to time, shall be maintained in the segregated liquidity account. The remainder will be invested in: current account, cash management account, and term deposits that have a remaining term to maturity of not more than one year.

8. ACCOUNTS RECEIVABLE

	<u>2023</u>	<u>2022</u>
Accrued interest - loans and mortgages	\$ 273,902	\$ 221,279
Other receivables	64,990	20,104
Accrued interest - investments	63,517	94,430
	<u>\$ 402,409</u>	<u>\$ 335,813</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

9. MEMBER LOANS AND MORTGAGES

	Total loans	Loan allowance	Net loans
2023			
Personal and business	\$ 14,489,380	\$ (186,881)	\$ 14,302,499
Lines of credit and overdrafts	5,451,456	(152,641)	5,298,815
Mortgages	26,726,735	(44,894)	26,681,841
LS&M reverse mortgages	472,942	-	472,942
	<u>\$ 47,140,513</u>	<u>\$ (384,416)</u>	<u>\$ 46,756,097</u>
2022			
Personal and business	\$ 13,814,535	\$ (182,580)	\$ 13,631,955
Lines of credit and overdrafts	3,343,793	(107,001)	3,236,792
Mortgages	24,222,000	(50,056)	24,171,944
LS&M reverse mortgages	497,930	-	497,930
	<u>\$ 41,878,258</u>	<u>\$ (339,637)</u>	<u>\$ 41,538,621</u>

10. PROVISION FOR IMPAIRED LOANS

	<u>2023</u>	<u>2022</u>
Provision for impaired loans - beginning of year	\$ 339,637	\$ 279,637
Provision for impaired loans	45,834	78,566
Recovery of loans written off	1,695	5,092
Loans written off - current year	<u>(2,750)</u>	<u>(23,658)</u>
Provision for impaired loans - end of year	<u>\$ 384,416</u>	<u>\$ 339,637</u>

Members' loans can have either variable or fixed rate of interest. The rates offered to members are determined by the type of security offered, the member's credit worthiness, competition from other lenders and the current prime rate.

11. LOANS IN ARREARS

The following is an analysis of loans in arrears based on the age of repayments outstanding:

	<u>2023</u>	<u>2022</u>
0 to 30 days	\$ 77,886	\$ 85,903
31 to 60 days	-	13,008
91 to 180 days	40,472	-
Over 180 days	<u>29,944</u>	<u>-</u>
	<u>\$ 148,302</u>	<u>\$ 98,911</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

12. DEFERRED INCOME TAXES

Deferred income taxes reflect the tax consequences of 'temporary differences' between the statement of financial position carrying amounts and the tax bases of assets and liabilities. These deferred income taxes are calculated using the income tax rates and tax laws that are expected to apply when these temporary differences are reflected in taxable income.

Temporary differences which give rise to deferred income tax asset (liability) are as follows:

	<u>2023</u>	<u>2022</u>
Property and equipment	\$ (272)	\$ (965)

13. MEMBER DEPOSITS

	<u>2023</u>	<u>2022</u>
Personal chequing accounts	\$ 16,142,560	\$ 17,580,943
Term deposits	13,796,568	10,680,675
Tax Free Savings Account (TFSA) deposits	6,765,273	4,372,736
Registered Retirement Savings Plan (RRSP) deposits	5,659,497	5,863,279
Registered Retirement Income Fund (RRIF) deposits	3,837,124	3,415,722
Call deposits	2,318,217	2,570,131
	<u>\$ 48,519,239</u>	<u>\$ 44,483,486</u>

14. MEMBERS' SHARES

	<u>Number of shares</u>	<u>December 31 2023</u>	<u>Number of shares</u>	<u>December 31 2022</u>
Balance - beginning of year	2,059	\$ 10,295	2,058	\$ 10,290
Shares issued, net of redemption	(18)	(90)	1	5
Balance - end of year	<u>2,041</u>	<u>\$ 10,205</u>	<u>2,059</u>	<u>\$ 10,295</u>

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

15. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 28.96% (2022 - 30.13%) to the income for the year and is reconciled as follows:

	<u>2023</u>	<u>2022</u>
Income before income taxes	\$ 382,535	\$ 411,243
Income tax expense at the combined basic federal and provincial tax rate:	\$ 110,782	\$ 123,908
Increase (decrease) resulting from:		
Small business deduction	(75,465)	(32,368)
Capital cost allowance claimed in excess of amortization	801	(3,661)
Non-deductible expenses	2,258	(3,017)
Tax reserves	(12,091)	(16,200)
Provision for loan loss reserve	13,750	23,570
Recovery of loans previously written off	509	1,528
Loans written off in the current period	(825)	(7,097)
Effective tax expense	\$ 39,719	\$ 86,663

The effective income tax rate is 10.38% (2022 - 21.07%).

16. CASH FLOW SUPPLEMENTARY INFORMATION

	<u>2023</u>	<u>2022</u>
Interest received	\$ 2,788,111	\$ 1,926,146
Interest paid	613,669	221,574
Income taxes paid	86,681	33,871

17. LINE OF CREDIT AVAILABILITY

The Credit Union has an approved line of credit with Atlantic Central Credit Union Limited of \$1,500,000, which is due for renewal on December 31, 2025, and was not utilized at the year end. The line of credit bears an interest rate of prime rate and is secured by a general security agreement.

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

18. RELATED PARTY TRANSACTIONS

Morell Credit Union Limited provides financial services to members. These members hold the loans, deposits and share deposits and therefore the interest income and interest expense are transacted in the ordinary course of business with these members.

As at year end, some members of the Board of Directors, Credit Committee, management and employees had loans and mortgages from Morell Credit Union Limited. These loans were in the normal course of operations with interest rates at the regular rates offered to all members of the Credit Union. Interest rates of deposits and dividends on shares were at identical rates offered to all Credit Union members.

Key management personnel include the General Manager and other senior officers of the Credit Union. The components of total compensation received by key management personnel, and balances due to/from key management personnel including only non-joint accounts are as follows:

	<u>2023</u>	<u>2022</u>
Short term employee benefits	\$ 401,512	\$ 346,959
Contributions to a retirement pension plan	20,923	18,346
Mortgages, loan balances, and lines of credit due from key management at December 31	43,805	60,859
Deposit balances due to key management at December 31	196,160	149,818

Short term employee benefits include salaries, variable compensation and other benefits. The mortgage and deposit transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

19. RISK MANAGEMENT

The Credit Union manages significant risks through a comprehensive infrastructure of policies, procedures, methods, oversight, and independent review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Board of Directors is provided with timely, relevant, accurate, and complete reports on the management of significant risks. Significant risks managed by the Credit Union include credit, liquidity, currency and interest rate risks.

(a) Credit risk

Credit risk is the risk that a member will fail to meet their obligations to the Credit Union. Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies and procedures, which includes assessing the member's credit history, character, collateral, and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Also, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and frequently reported to senior management to ensure all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as described by approved lending agreements.

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MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

19. RISK MANAGEMENT (continued)

The Credit Union's loan portfolio is focused in two main areas: consumer and commercial loans and mortgages, the latter of which are to mainly small and mid-sized companies. A syndication process is available with other Credit Unions for larger commercial loans, when considered necessary, to appropriately mitigate the Credit Union's credit risk. Consumer mortgages are made available on a conventional basis up to 80% of the lesser of cost or appraised value of single family housing, up to 75% on other residential properties, up to 65% of the lesser of cost or appraised value on commercial properties having general purpose usage and up to 50% of the lesser of cost or appraised value on commercial properties designed for specific use. Other credit facilities provided include personal overdrafts that have no recourse to the Credit Union.

The Credit Union's policy is to pursue timely realization of the collateral in an orderly manner. The Credit Union does not generally use the non-cash collateral for its own operations. During the current and prior years, the Credit Union did not take possession of collateral held as security against loans and advances.

Cash and equivalents and investments have low credit risk exposure as these assets are high quality investments with low risk counterparties. For the loan portfolio, the Credit Union reviews the member's capacity to repay the loan rather than relying exclusively on collateral.

The Credit Union's maximum exposure to credit risk at the reporting date in relation to each class of recognized financial asset is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities or parties fail to perform their obligations under the financial instruments in question. The principal collateral and other credit enhancements the Credit Union holds as security for loans include: insurance and mortgages over residential lots and properties, recourse to business assets such as an assignment of real estate, equipment, inventory and accounts receivable, and recourse to liquid assets, guarantees and securities. The value of collateral held against individual exposures is generally only assessed at the time of borrowing and when a specific review of that exposure is undertaken in accordance with policy.

The Credit Union's maximum exposure to credit risk at the reporting date was:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,111,932	\$ 7,733,905
Investments	9,862,915	9,479,693
Accounts receivable	402,409	335,813
Member loans and mortgages, net of provision	<u>46,756,097</u>	<u>41,538,621</u>
	<u>\$ 60,133,353</u>	<u>\$ 59,088,032</u>

(b) Liquidity risk

Liquidity risk is the risk of being unable to meet financial commitments without having to raise funds at unreasonable prices or sell assets on a forced basis. The Credit Union has established policies to ensure the Credit Union is able to generate sufficient funds to meet all of its financial commitments in a timely and cost effective manner. The Credit Union's liquidity management practices include ensuring the quality of investment acquired for liquidity purposes meet very high standards, matching maturities of assets and liabilities and monitoring cash flow on a regular basis. Management monitors the Credit Union's liquidity position and reports to the Board on a regular basis.

(continues)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

19. RISK MANAGEMENT (continued)

The Credit Union is required to maintain 6% of prior quarter's assets in liquid investments in which 100% must be held by Atlantic Central Credit Union Limited and the Credit Union was in compliance with this requirement at year end. Cash flows payable under financial liabilities by remaining contractual maturities are as follows:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
2023	\$ 50,567,152	\$ 5,831,291	\$ -	\$ 56,398,443
2022	\$ 52,518,433	\$ 2,856,048	\$ -	\$ 55,374,481

The Credit Union expects that many members will not request repayment on the earliest date the Credit Union could be required to pay.

The following is a maturity analysis of financial instruments on the statement of financial position that contain a current and non-current portion as of December 31, 2023:

	Under 1 year	Over 1 to 5 years	Over 5 years	Total
Investments	\$ 9,362,915	\$ -	\$ 500,000	\$ 9,862,915
Member loans and mortgages	\$ 13,907,488	\$ 31,723,518	\$ 1,125,092	\$ 46,756,097
Member deposits	\$ 42,687,948	\$ 5,831,291	\$ -	\$ 48,519,239

(c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Credit Union is exposed to currency risk through its cash accounts and member deposits. The Credit Union maintains deposits in foreign currencies to service its member accounts. As of December 31, 2023, the Credit Union had cash and bank balances of \$152,407 USD (2022 - \$191,962 USD) and member accounts of \$3,597 USD (2022 - \$41,366 USD).

(d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate materially due to changes in market interest rates. The Credit Union is exposed to interest rate risk through its loans and mortgages, providing lending services to its members for a rate based on the Bank of Canada base rate plus a risk premium determined at the loan inception. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities. Interest rate risk is measured on a quarterly basis and the results are reported to the Board of Directors.

The following table provides the potential before-tax impact of an immediate and sustained 1% increase or decrease in interest rates on net interest income, assuming no further hedging is undertaken. These measures are based on assumptions made by management. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Credit Union's management initiatives.

Before tax impact on net interest income of:	2023	2022
1% increase in interest rates	\$ 446,451	\$ 227,375
1% decrease in interest rates	\$ (463,918)	\$ (297,895)

MORELL CREDIT UNION LIMITED

Notes to Financial Statements

Year Ended December 31, 2023

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Morell Credit Union Limited has evaluated the fair value of its financial instruments based on the current interest rate environment, market values and the actual prices of financial instruments with similar terms. Fair value represents the amount at which a financial investment could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Credit Union's financial instruments.

A three-tier hierarchy is used as a framework for disclosing fair values based on inputs used to value the Credit Union's financial instruments recorded at fair value. Valuation methods used in this framework are categorized under the following fair value hierarchy:

Level 1 - Quoted prices for active markets for identical financial instruments that the entity can access at the measurement date.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The carrying values of cash and cash equivalents, investment in debentures and accounts receivable approximate their fair value as they are short term in nature or are receivable on demand.

Long term investments in shares in the Credit Union system and others have been classified as available-for-sale and are required to be measured at fair value with any changes in fair value through profit or loss. The Credit Union has determined the fair value of these investments cannot be measured reliably and therefore measures these investments at cost with no adjustment to income. The Credit Union's investments in system debentures have been classified as held-to-maturity and are required to be measured at amortized cost.

The differences between the carrying and fair values of the Credit Union's loans and deposits are primarily due to changes in interest rates. The carrying value of the Credit Union's financial instruments are not adjusted to reflect increases or decreases in fair value as a result of interest rate changes, as it is the Credit Union's intention to realize their value over time by holding them to maturity.

21. CAPITAL MANAGEMENT

Morell Credit Union Limited provides lending services to its members in the form of loans, lines of credit and mortgages. The Credit Union's objective in the lending process is to remain within the lending guidelines set for the institution and to provide an adequate return to its members through adjusting risk premiums with the level of assessed risk on an individual basis. These services are provided to members at the discretion of the general manager and lending personnel within the established parameters. Total lending activities managed by the Credit Union as of December 31, 2023 amounted to \$47,140,513 (2022 - \$41,878,258).

Consistent with other Prince Edward Island Credit Unions, Morell Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain an equity level of 5% of the Credit Union's total assets. This ratio is calculated by adding the undistributed earnings at the end of the previous period plus the operating surplus in the current period and members' shares, divided by the total assets of the Credit Union.

(continues)

MORELL CREDIT UNION LIMITED
Notes to Financial Statements
Year Ended December 31, 2023

21. CAPITAL MANAGEMENT (continued)

	2023	2022
Undistributed earnings	\$ 4,971,796	\$ 4,628,287
Members' shares	10,205	10,295
Total regulatory equity	4,982,001	4,638,582
Total assets	61,380,444	60,013,063
	8.12 %	7.73 %

Credit Union bylaws require Morell Credit Union Limited to maintain sufficient liquid assets and a line of credit to meet its normal cash flow requirements. Consistent with other Prince Edward Island Credit Unions, Morell Credit Union Limited is required by the Credit Union Deposit Insurance Corporation to maintain a minimum liquid asset level of 10% of total assets to ensure ongoing cash flow requirements are met.

	2023	2022
Total assets	\$ 61,380,444	\$ 60,013,063
Liquid assets	13,377,256	17,549,411
	21.79 %	29.24 %

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Statement of Property and Equipment
Year Ended December 31, 2023

(Schedule 1)

	Cost beginning of year	Additions	Disposals and write downs	Cost end of year	Accum amort beginning of year	Amort in the year	Disposals and write downs	Accum amort end of year	Net book value
2023									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	423,552	17,326	-	440,878	415,813
Equipment	320,578	10,323	-	330,900	246,307	17,852	-	264,159	66,741
Pavement	16,675	-	-	16,675	2,938	1,099	-	4,037	12,638
Computer hardware	62,884	5,206	-	68,090	53,614	7,207	-	60,821	7,269
	<u>\$ 1,387,363</u>	<u>\$ 15,529</u>	<u>\$ -</u>	<u>\$ 1,402,891</u>	<u>\$ 726,411</u>	<u>\$ 43,484</u>	<u>\$ -</u>	<u>\$ 769,895</u>	<u>\$ 632,996</u>
2022									
Land	\$ 130,535	\$ -	\$ -	\$ 130,535	\$ -	\$ -	\$ -	\$ -	\$ 130,535
Building	856,691	-	-	856,691	405,505	18,047	-	423,552	433,139
Equipment	289,464	31,114	-	320,578	231,629	14,678	-	246,307	74,271
Pavement	16,675	-	-	16,675	1,743	1,195	-	2,938	13,737
Computer hardware	57,384	5,500	-	62,884	49,450	4,164	-	53,614	9,270
	<u>\$ 1,350,749</u>	<u>\$ 36,614</u>	<u>\$ -</u>	<u>\$ 1,387,363</u>	<u>\$ 688,327</u>	<u>\$ 38,084</u>	<u>\$ -</u>	<u>\$ 726,411</u>	<u>\$ 660,952</u>

Notes 1 - 21 are an integral part of these financial statements

MORELL CREDIT UNION LIMITED
Schedules to Financial Statements
Interest Rate Sensitivity
Year Ended December 31, 2023

(Schedule 2)

	Under 1 year	Over 1 to 5 years	Over 5 years	Not interest rate sensitive	Total
ASSETS					
Cash and cash equivalents	\$ 2,480,888	\$ -	\$ -	\$ 631,044	\$ 3,111,932
Effective interest rate	4.99 %	-	-	-	
Investments	8,524,309	-	500,000	838,606	9,862,915
Effective interest rate	3.69 %	-	7.24 %	-	
Accounts receivable	-	-	-	402,409	402,409
Member loans and mortgages	8,608,672	31,723,518	1,125,092	-	41,457,282
Effective interest rate	4.54 %	4.94 %	4.98 %	-	
Lines of credit and overdrafts	5,298,815	-	-	-	5,298,815
Effective interest rate	6.38 %	-	-	-	
Income taxes recoverable	-	-	-	46,962	46,962
Prepaid expense	-	-	-	567,133	567,133
Property and equipment	-	-	-	632,996	632,996
	\$ 24,912,684	\$ 31,723,518	\$ 1,625,092	\$ 3,119,150	\$ 61,380,444

LIABILITIES AND MEMBERS' EQUITY

Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 304,960	\$ 304,960
Employee benefits payable	-	-	-	62,923	62,923
Accrued interest payable	-	-	-	679,788	679,788
Future income taxes	-	-	-	272	272
Member deposits	26,550,145	5,831,291	-	16,137,803	48,519,239
Effective interest rate	3.56 %	4.45 %	-	-	
Share deposits	6,831,261	-	-	-	6,831,261
Effective interest rate	1.25 %	-	-	-	
Members' shares	10,205	-	-	-	10,205
Effective interest rate	1.25 %	-	-	-	
Undistributed earnings	-	-	-	4,971,796	4,971,796
	\$ 33,391,611	\$ 5,831,291	\$ -	\$ 22,157,542	\$ 61,380,444

The above table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Credit Union's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, loans and mortgages are shown at contractual maturity but certain could prepay earlier.

As at December 31, 2023, Morell Credit Union Limited's net interest spread was 2.05%. The net interest spread is calculated by expressing the difference between (a) the percentage of income earned on the average year end interest bearing assets and (b) the percentage of costs of capital and borrowings on the average year end interest bearing liabilities.

MEMBERSHIP & INFORMATION

CUDIC

CREDIT UNION
DEPOSIT INSURANCE
CORPORATION



- The Credit Union Deposit Insurance Corporation (CUDIC) guarantees the repayment of deposits with Prince Edward Island credit unions, in accordance with the relevant provisions of the Credit Unions Act. Subsection 173 (9) of Credit Unions Act Legislation provides that the Government of Prince Edward Island will ensure that this obligation of the Corporation is carried out.

A brief summary of the deposit insurance coverage offered by CUDIC is set out below.

- Membership is limited to Credit Unions incorporated under the laws of Prince Edward Island. All Island Credit Unions are required to be members of CUDIC.
- The maximum deposit insurance is \$125,000 per person in each Credit Union. Where a Credit Union operates a branch office, deposits are not insured separately in such branch offices.
- CUDIC insures 100% of insurable deposits held in registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), registered education savings plans (RESPs), registered disability savings plans (RDSPs), tax-free savings accounts (TFSA), and first home savings account (FHSA). These are separately insured from other deposits a person may have with the same Credit Union.
- Deposits in each Credit Union are separate and distinct and the limits apply to each Credit Union separately. Eligible deposits in one Credit Union do not affect the limits for eligible deposits in another Credit Union.
- A depositor may be an individual, an association of individuals, a corporation, an association of corporations or a government.
- Insurable deposits include Canadian currency savings and chequing accounts, foreign currency savings accounts and chequing accounts, membership share amounts, Canadian and foreign term deposits, investment certificates, drafts and money orders issued by the Credit Union.
- Separate insurance, to the \$125,000 maximum, applies to joint accounts and trust deposits.
- Credit Union Deposit Insurance Corporation (CUDIC) does not insure all deposits and investments offered by the Credit Union.
- CUDIC does not insure debentures issued by a Credit Union, bonds or debentures issued by government or corporations, treasury bills and investments in mortgages, stocks, and mutual funds.

This information is presented in a non-technical way and is not intended to be a legal explanation of the Prince Edward Island Credit Unions Act.

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CHARLOTTETOWN, PE
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For more information on Credit Union Deposit Insurance
Phone (902) 628-6280 or contact your Credit Union.



Contact Us



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